DESTINY RESOURCE SERVICES CORP.

2002 Annual Report

For the Year Ended December 31, 2002

And

2003 First Quarter Interim Report

For the Three Months Ended March 31, 2003

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CORPORATE PROFILE

Destiny Resource Services Corp. provides fundamental services to energy explorers and producers in three of the primary phases of oil and gas exploration and production:

- Seismic Front-End Services is comprised of seismic survey and mapping services, seismic line clearing and shothole drilling.
- Surface Preparation Services includes wellsite preparation, oilfield road and lease construction and maintenance as well as wellsite reclamation.
- Post-Drilling Services focuses on pipeline gathering systems and facility construction, piping and structural fabrication and managed oilfield maintenance contracting.

Destiny's comprehensive service array is provided individually or bundled, enabling the Company to deploy common resources – both manpower and equipment – in strategic locations offering clients safe, efficient, value-added, quality services.

Common shares of Destiny Resource Services Corp. trade on The Toronto Stock Exchange under the ticker symbol DSC.

The Annual General Meeting of Shareholders of Destiny Resource Services Corp. will be held on Thursday, June 26, 2003 at 10:00 a.m. (Calgary time) in the Riverview Room at the International Hotel, 220 – 4th Avenue S.W., Calgary, Alberta. The Management Information Circular, Notice of Meeting and Form of Proxy are being mailed to each shareholder with this Annual Report. Shareholders who are unable to attend the Meeting are requested to complete and return the Form of Proxy to Valiant Trust Company, Suite 510, 550 – 6th Avenue S.W., Calgary, Alberta T2P 0S2 at their earliest convenience.

FINANCIAL HIGHLIGHTS

	Three Months Ended March 31,			Year ended December 31,		
	2003	2002	**Change**	**2002**	2001	**Change**
($000s, except per share amounts) (unaudited)	**$**	$	**%**	**$**	$	**%**
Revenue	**22,043**	14,912	**48**	**50,314**	98,142	**(49)**
Net income (loss)	**2,243**	(558)	**502**	**(16,033)**	8,021	**(300)**
Per share – basic	**0.04**	(0.01)	**500**	**(0.32)**	0.19	**(268)**
Per share – diluted	**0.04**	(0.01)	**500**	**(0.32)**	0.17	**(288)**
Cash flow from operations	**3,087**	238	**1,197**	**295**	14,100	**(98)**
Per share – basic	**0.06**	0.01	**500**	**0.01**	0.34	**(97)**
Per share – diluted	**0.06**	0.01	**500**	**0.01**	0.30	**(97)**
EBITDA [(1)]	**3,506**	1,430	**145**	**1,572**	16,718	**(91)**
Per share – basic	**0.07**	0.03	**133**	**0.03**	0.41	**(93)**
Per share – diluted	**0.07**	0.03	**133**	**0.03**	0.35	**(91)**
Capital expenditures	**828**	913	**(9)**	**3,449**	4,697	**(27)**
Weighted average shares outstanding *(000s)*						
Basic	**52,712**	46,878	**12**	**49,883**	41,161	**21**
Diluted	**52,712**	47,263	**12**	**50,055**	47,165	**6**

	March 31,	Dec. 31,		**Dec. 31,**	Dec. 31,	
	2003	2002	**Change**	**2002**	2001	**Change**
As at	**$**	$	**%**	**$**	$	**%**
Working capital	**1,555**	(780)	**299**	**(780)**	1,386	**(156)**
Total assets	**32,486**	23,213	**40**	**23,213**	46,436	**(50)**
Long-term debt and debentures [(2)]	**13,454**	13,494	**-**	**13,494**	15,494	**(13)**
Shareholders' equity	**1,669**	(574)	**391**	**(574)**	14,018	**(104)**
Number of shares outstanding	**52,712**	52,712	**-**	**52,712**	46,878	**12**
Book value per share outstanding	**0.03**	(0.01)	**400**	**(0.01)**	0.30	**(103)**

[(1)] EBITDA is provided to assist investors in determining the ability of Destiny to generate cash from operations and is calculated from the consolidated statement of income as net income (loss) before interest, taxes, depreciation, amortization, gain (loss) on disposal of capital and other assets, write-down of capital assets and other expenses. This measure does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

[(2)] Excluding current portion.

LETTER TO SHAREHOLDERS

FELLOW SHAREHOLDERS,

For the year end of 2002, we determined to take steps to ensure the carrying values of our assets reflect the cyclical nature of the businesses in which we operate. This process took longer than it might have (as the industry has a seasonal nature to it too and we were very busy until spring breakup) and as such our annual report is coming to you later than we would wish. Given the delay, we have elected to save some costs by reporting to you now on both 2002 and the first quarter of 2003. As such you will find in this document the audited financial statements for 2002 and the unaudited financial statements for the first quarter of this year. In addition you will find Management's Discussion and Analysis on both sets of statements. The operations report really describes what we do and so is common to both periods. This letter will cover both periods. Thank you for your indulgence.

While the balance of this letter and this report will give detail, financial and otherwise, on the past 15 months, let me offer a brief summary and sound a note of encouragement.

- The year 2002 was one of reduced industry activity and pricing pressures and Destiny did not fare well. We took steps to better manage those things in our control and to better prepare for those things we cannot control.

- The year 2003 has started very well and looks promising. Learnings from 2002 and activity levels enabled Destiny to earn record profits in the first quarter of 2003. Destiny is strong operationally. The principal issues for Destiny (subject always to demand and weather) relate to our balance sheet. We will address these issues by some combination of earnings, dispositions or other means. We are encouraged by the economic environment in which we are operating.

Q1'03

This quarter saw a return to volumes and margins wherein Destiny can and will make money and provide the opportunity to restore the confidence of our investors.

- Revenue was 148% of the comparable quarter of 2002
- EBITDA was 245% of that generated in the comparable quarter of 2002
- EBITDA per share (on a diluted basis) was 233% compared to Q1'02
- Net income was 502% greater than the loss in Q1 of 2002, 500% on a diluted per share basis

As importantly as comparing Q1'03 to Q1'02, we are proud of the comparison to the first quarter of Destiny's record year of 2001:

- Revenue was 96.2% of the record for the quarter set in Q1 2001
- Net income was 112% of the comparable quarter in 2001
- Net income per diluted share was the same as Q1'01

The quarter saw our Battle River Oilfield Construction division and our Wolf Survey & Mapping Division set records for their respective monthly revenues in January. And then Wolf went and topped that in February!

The quarter contained the confluence of high industry demand for all of our services and cooperative weather. These factors, combined with the steps taken to reduce costs and to focus business process, yielded our most successful results.

OUTLOOK FOR 2003 AND BEYOND

Business is good and it appears it will be good to very good for the year. As we have written in the past, many of the services we provide at Destiny, by virtue of what we do and where our businesses are located, are directed to the exploration for and production of natural gas. It appears as if we are in for a meaningful run in the natural gas industry, hopefully for several years, as strong commodity prices and consequent cash flow to producers are inducing increases in capital expenditure budgets.

Our base forecast for the year assumes the continuation of oilfield activity at levels as expected by forecasters and experts at the beginning of the year, namely a 20-25% increase over 2002. On that basis we believe Destiny will

generate at least adequate results for the year. When we adjust our forecast to reflect what we are seeing today, the smiles on our faces grow.
That said, there is always a great deal of fragility and uncertainty in forecasts. At this time last year, while activity was not strong, signals from our customers and from the industry in general were very encouraging. The expected business did not materialize and we were disappointed.

Today, aside from commodity prices and expectations for commodity prices, the key variables for us are how much heli-portable seismic drilling will be done in western Canada this year, what market share will Destiny achieve and at what margins. Heli-portable seismic drilling is the Company's most volatile business line and activity and pricing in this area will make all the difference to our bottom line. At the time of writing, we reflect optimism for at least a decent season and have hopes for much better than that.

2002 GENERALLY

The cyclical and seasonal nature of the oilfield services industry wreaked their havoc on Destiny in 2002. We compounded this by some actions and inactions of our own. This deadly combination produced poor operating results. Before addressing the many ways we made our businesses better and positioned our Company for the successes we are enjoying so far in 2003, let me chronicle some of the challenges we faced during the past year:

- Weak Commodity Prices -Prices for oil and gas fell in the latter part of 2001 and the effect of this was felt in 2002. Our direct and indirect customers reduced their capital expenditure budgets and industry activity levels fell sharply.

- Arctic Winter Seismic Program - We spent much money, time and effort preparing for a robust winter program in the Arctic. The program turned out to be smaller than we anticipated, our performance was only adequate, and as a result our financial results were poor.

- Irrational Competitive Behavior - The dramatic decline in activity, especially in specialized heli-portable drilling, together with competitive pressures and other factors, caused competing bids to be submitted at prices which were below marginal cost. We, naturally, did not get the work and so potential margin to Destiny became a loss to others.

- Changing Management - During the year, a senior manager of the Company unfortunately passed away, a second senior manager retired and a third left the Company. This created some degree of discontinuity and change, with a consequent impact on our business and profit.

- Price and Margin Pressures - Low commodity prices (especially in late 2001 when capital budgets were being set for 2002) and competitive factors combined to put pressure on Destiny to reduce our pricing for the jobs we undertook. Since our input costs did not reduce materially, the result was lower margins from our operations.

- Relocation Pressures - We faced an expiring lease on the premises of one of our divisions. At the same time we realized a second division could be better located. In rapid fire action, we bought a shop and yard in Grande Prairie, Alberta and relocated these two operations there. A by-product of such moves is unbudgeted costs.

- Weather and Q4 Deferrals - Spring break up was unusually long in 2002. Winter was late coming in 2002. When winter ground conditions were slow arriving, some customers elected to defer work into the new year, enhancing their own debt to cash flow ratios. All of this meant less work for Destiny.

Not all was negative in 2002. We took many positive steps such that Destiny emerged from 2002 well positioned for the future:

- Firmed Up the Management Team - To address the departures within our management we promoted from within and some of us took on additional responsibilities. As a result we today have a solid, skilled, experienced management team. We have seen the elimination of non-productive elements and are proud of the work ethic and commitment of the leaders in our organization.

- Consolidated Operations - The synergistic effects of bringing Double R Drilling (our seismic shot-hole drilling division) and Destiny Resources (our seismic line clearing division) together in one location were achieved almost immediately. Administration and shop costs have dropped dramatically.

- Overhead Costs are In Line and Controlled - Given our focus on the operating results and our balance sheet throughout 2002, efforts were taken to ensure that our fixed costs are controlled and appropriate. Destiny has several businesses and we run a decentralized system with a great deal of divisional autonomy. While this may result in more administrative costs than a centralized system, we believe it provides better control, flexibility and responsiveness. We have the capacity and ability to add to our volumes of business without adding to our overhead.

- Divisional Co-operation and Co-ordination Heightened - Our businesses have learned better how to work with and support each other. This has enhanced cross-selling opportunities and has offered opportunities for reducing operating costs.

- Focus on Quality, Safety and Service for our Customers - Destiny's success in the field is attributable to the end results of our efforts for our customers. Our continued emphasis on what we deliver and how we deliver it makes us a preferred supplier of our services.

- Focus on Profit for our Shareholders - With belt tightening and pencil sharpening, we have positioned Destiny to break even in the event of modest industry activity and to make money with decent and above levels of activity. We believe the results for Q1'03 speak to this.

- Non-recurring Costs - Adding up the operational expenses incurred in 2002 of a non-recurring nature, our operating results would have increased by $1.6 million.

ASSET AND GOODWILL WRITE DOWN

A fundamental reorganization of senior management at Destiny took place at the end of 2000 and into early 2001 with the departure of the CEO, COO, CFO and Corporate Secretary, and continued in 2001 with the departure of two vice-presidents. The refocusing in 2001 of Destiny, including the consolidation and elimination of businesses, took place in the context of a very hot market for oilfield services, including those offered by our Company. As such, the historic carrying values for fixed assets and goodwill seemed appropriate and these values were supported by results in 2001 and outlook for 2002.

The contraction in demand for our services in 2002, together with actions of competitors that put pressure on our pricing and our margins, led us to review the basis on which items are carried on our books. The conclusion of Management, supported by your Board of Directors, is to write down the carrying value of fixed assets and goodwill. This write down amounts to $4 million for goodwill and $9 million for fixed assets.

It is important to note these adjustments to book value have no impact on cash, on cash flow or on the earnings prospects of our Company or our businesses. Indeed, the success so far in 2003 is confirmation of the earning power of our businesses. These adjustments reflect a conservative approach to our balance sheet. The one financial statement impact they will have, going forward, is to reduce the depreciation and amortization of fixed assets and hence to increase reported earnings.

These write downs have created, at year end, a negative value for shareholders' equity. This is not, in our view, cause for concern: we believe in the value of the combination of our people and our assets to create value and to generate cash flow. We simply recognized the dramatic volatility of the service sectors within which we operate and consciously chose a conservative accounting approach.

The result is to show the net realizable value of Destiny's assets as at a relatively low time in the business cycle, as reflected by 2002's revenue and operating margins. Our belief in the earning power of our people operating our assets means we need not focus on asset carrying value in the better parts of the business cycle, as reflected by the results generated in the first quarter of 2003.

BALANCE SHEET AND LIQUIDITY

From a balance sheet perspective, we have issues that impact our operations and issues that we must address as a priority. These include:

- Our overall debt levels have precluded or deferred the acquisition of certain equipment. We have been renting and leasing some equipment with a consequent negative implication to our operating results so far in 2003.

- Our working capital is less than desirable. This causes some greater use of our operating line than we prefer and an increase in interest expense and continued awareness of lack of financial stability.

- The results of operations for 2002 meant that Destiny did not comply at all times with all covenants in our loan agreements. By virtue of not complying with all of the covenants in our operating loan agreement, Destiny was not able, by contract, to pay the interest due on December 31, 2002 on the $10,000,000 subordinated debenture held by First Reserve Fund VIII, L.P. Destiny and First Reserve agreed to defer this payment, and for Destiny to pay interest thereon at the face rate of 8%, to June 30, 2003. Destiny anticipates being in a position, both from a liquidity perspective and from a covenant perspective, to be able to pay all interest due to First Reserve at June 30, 2003.

- First Reserve and RoyNat Inc., Destiny's principal term lender, entered into agreements with Destiny to remove the operation of constrictive covenants in the period from December 31, 2002 through June 29, 2003 and April 1, 2003, respectively, removing any impact on Destiny during those periods.

- Destiny is working with GMAC Canada, its operating lender, for a revision of the covenants in the operating loan relationship. The Company and GMAC have agreed in principle and are in the process of documenting covenants that fit with Destiny's and GMAC's view of Destiny's business and expected results. Should the world unfold as anticipated in the modeling done to determine the covenants, Destiny will be in compliance with each covenant and will not face cross-default issues with any of its other debt.

- Provided Destiny achieves levels of activity and margins for the balance of the year as per the present base forecast, and assuming negotiations with lenders provide covenants as presently being discussed, Destiny believes it will be on-side with its covenants with its lenders for the balance of the year and that it will be in a position to make the interest and principal payments on all of its debt as they fall due for the balance of the year.

- Destiny still faces the maturity of the $10,000,000 debenture on July 2, 2004. If things with this debt remain status quo, Destiny will be put to refinancing this amount in the first half of 2004. This will require some combination of term debt, subordinated debt and/or equity and no assurance can be given as to the Company's ability to do so. With the present view of 2003 and assuming 2004 unfolds at least as well as our base forecast for 2003, Management is of the view that the ability to achieve such a re-financing is likely.

Where are we going

- Today each of Destiny's businesses is well managed and well positioned to take advantage of the current upturn in oilfield activity and the increased demand for the services each provides. Each of these businesses has opportunities for growth and expansion. The inhibiting factors to growth, acquisition and expansion relate more to Destiny's debt and debt capacity and to the trading price of Destiny's shares than to capability or opportunity.

- Our businesses have an appetite for capital that we must address. To grow, or even to maintain productive capacity, requires continual reinvestment. We are conscious of the need for capital and of the constraints on the Company by virtue of existing levels of debt.

- There is a market for each business or for the assets of each business that Destiny owns and operates. While Double R Drilling is in a more specialized business than the others so that the value of its drilling assets varies more with industry activity than the value of the assets of our other businesses, what we do, how we do it and what we do it with are all of value to third parties. With Destiny's debt and debt maturities, it is appropriate to review the value to Destiny of each of its businesses.

- The market price of Destiny's shares, a disappointment to us all, means we do not have a currency to use to help fund capital expenditures, growth or acquisitions. In addition, the micro-cap sector of the equities markets appears to be out of favour with investors. These factors suggest a corporate transaction of some type may be in the interest of shareholders. Your Board of Directors is open to all opportunities to maximize value for shareholders.

- First Reserve Fund VIII, L.P owns about 56% of the outstanding shares of Destiny in addition to being the holder of the $10,000,000 subordinated debenture due July 2, 2004. These investments are not key holdings for First Reserve and as such First Reserve has indicated a willingness to sell its position in Destiny. This may have an impact on how the Company is perceived and any transaction may impact who controls Destiny.

Your Management and Board of Directors are acutely aware of the pressures, issues, opportunities and obstacles facing our Company. We are working to make the most sense of the situation, ever mindful of the many constituencies to be addressed, as we try to achieve value for our shareholders.

Board of Directors; June 26 Meeting of Shareholders

On April 1, Ben Guill, President of First Reserve, resigned from our Board due to other demands on his time. We thank Ben for his leadership and contribution to Destiny. On May 13, Tom Denison, Managing Director, First Reserve was appointed to the Board. Mr. Denison is one of the nominees from Management and the Board for election at the June 26, 2003 Annual General Meeting of Shareholders, along with continuing directors Bruce Libin, Will Honeybourne, Glen Roane, Mark Smith and Tim Day. Shareholders are encouraged to attend this meeting to meet management and directors and to hear a presentation on the Company and its prospects.

Gratitude to those who make it happen

The successes Destiny has enjoyed, as witnessed by the results for Q1'03, and the opportunities in front of our Company, derive from the daily efforts of our people. Our field staff, office staff and managers work hard every day to provide safe, quality services to our customers and to earn the right to do so again. It is with the gratitude of the shareholders that I say "Thank You" to each of these individuals.

On behalf of the Board of Directors,

Bruce R. Libin, Q.C.
Executive Chairman and
Chief Executive Officer
May 13, 2003

OPERATIONS REVIEW

Destiny Resource Services Corp. provides specialized oilfield services in three of the primary phases of oil and gas exploration and production:

- Seismic Front-End Services is comprised of seismic survey and mapping services, seismic line clearing and shot-hole drilling.
- Surface Preparation Services includes wellsite preparation, oilfield road and lease construction and maintenance as well as wellsite reclamation and remote accommodation.
- Post-Drilling Services focuses on quality-controlled facility construction, managed maintenance contracting, pipeline gathering systems and piping and structural fabrication.

SEISMIC FRONT-END SERVICES

Destiny is Canada's only full service front-end contractor providing seismic survey and mapping, line clearing and shot-hole drilling services. Front-end services are delivered by Wolf Survey & Mapping (seismic survey, including GPS and mapping), Destiny Resources (seismic line clearing) and Double R Drilling (heliportable and track mounted seismic shot-hole drilling).

Providing exploration and production companies and geophysical acquisition companies with the opportunity for integrated or unbundled services, Destiny's front-end services division is the industry leader in technological innovation and implementation and in the coordination of services.

SURVEY & MAPPING

Destiny's survey division, Wolf Survey & Mapping, deploys world class GPS survey equipment, permitting extra efficiencies in services and the production of the highest quality maps.

In 2002, Wolf continued to expand the implementation of high technology surveying including the Under-CanopyGPS™ and Lidar Surveys. These techniques enable seismic operations to occur with minimal tree cutting, which greatly reduces environmental impact, safety risk exposure and timber damage costs. Wolf's innovation has established it as one of the leading survey contractors in the industry.

LINE CLEARING

Destiny's line clearing division, Destiny Resources specializes in low impact seismic right-of-way clearing. 2002 saw the appointment of Warren Plue as Vice-President Survey & Line Clearing. This appointment led to a focus on increasing market share and the reestablishment of market area into British Columbia. Destiny Resources expanded its Under-CanopyGPS™ and deployed GPS guidance systems throughout its entire fleet of line clearing equipment. Destiny Resources expanded its capacity by doubling the number of its environmentally advanced drum mulcher type brush cutters and relocated its operations centre to Grande Prairie, Alberta.

DRILLING

2002 was a year of transition for Destiny's drilling division, Double R Drilling. The division endured three major setbacks: a contract in the Arctic that did not materialize as anticipated; significantly less activity in the summer heli-portable market; and a slow Q4 due to warmer than normal weather and the deferral of work, by some customers, into 2003.

At the same time, Double R Drilling notes three major advancements in 2002. The relocation and consolidation with Destiny Resources in Grande Prairie has led to a reduction in overhead cost of approximately 15%. Improved efficiency and effectiveness in our shop facility has resulted in a 30% decrease in our maintenance cost. The year also saw the creation of a strong management team (with a combined 50 years of experience) with targeted objectives for margins and cost control.

Double R Drilling believes the cost control measures undertaken in 2002 have made us stronger and a better supplier for the future.

Safety

Destiny continues to ensure the prevention and control of all potential loss. We continue to focus on the importance of safety throughout our industry.

We are pleased to introduce the amalgamation of our Front-End Services Safety Programs which allows Destiny to operate in a more efficient and productive manner. The successful launch of our Mission Possible program will continue to allow Destiny to maintain leadership throughout our Safety Program.

Destiny's Front-End Seismic Services proudly maintain Loss Time Accident (LTA) and Severity ratings well below industry averages and well below industry standards. We remain vigilant in our quest to work safer.

Destiny's management continues to promote a safe working environment by ensuring Safety, Quality, Quantity and Service.

Surface Preparation

Battle River Oilfield Construction is Destiny's surface preparation division. Services provided by this division include lease and road construction, road maintenance contracting, remote base camp accommodation and related services. Battle River attributes its success to its ability to attract and retain key long-term employees. Commitment to safety and quality of work is a high priority to the management and staff of Battle River Oilfield Construction. Battle River has dispatch and maintenance staff strategically based out of Manning which is central to the exploration activity in the Peace block of northern Alberta. In 2002, Battle River continued to achieve a significant share of the market within its areas. With over 60 pieces of heavy construction equipment and more than 25 years history in the region, Battle River contracts to the majority of area explorers, producers and forestry companies.

During 2002, despite a general slowdown in oilfield activity, Battle River's operations remained relatively steady.

Post-Drilling Services

Destiny's post-drilling services are served by the McConnell Group of Companies. McConnell has operated for thirty years in the Alberta oil and gas service sector, providing facility and pipeline gathering system construction services to a wide variety of large and small energy producers. McConnell also specializes in shop and field fabrication of pressure vessels and plant piping. Rounding out the services provided by McConnell are managed maintenance programs, certified structural steel fabrication, millwright services, and manufacturing of process equipment enclosures, oilfield structures and metal building components.

Traditionally focused on the gas prone regions of Alberta and the heavy oil regions of west central Saskatchewan, McConnell has expanded its service area into the active north central and northwestern oil and gas regions of Alberta. McConnell's ongoing diversification into industrial, food processing, thermal generation and managed maintenance services market has been part of their measured growth strategy.

Working with client supply chain, engineering and project management and regulatory agencies, McConnell continues to earn recognition for providing safe efficient, quality controlled services.

2002 ANNUAL REPORT

FOR THE YEAR-ENDED DECEMBER 31, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results for the years ended December 31, 2002 and 2001 should be read in conjunction with the Company's consolidated financial statements and related notes contained in this Annual Report. Certain statements included in this discussion constitute forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, which among other things, affect demand for the Company's services; industry capacity; the ability of the Company to implement its business strategy; and changes in, or the failure to comply with government regulations, especially health, safety and environmental laws, regulations and guidelines.

OVERVIEW

While 2001 was an exceptionally positive year, 2002 was disappointing for the Company. As with other Canadian oil & gas services companies, the level of activity in 2002 was negatively impacted by the reduced capital expenditure budgets of our customers as a result of weak commodity prices and by merger activity in late 2001. Further, price and margin pressures that result when excess capacity is present in the industry amplified the negative effect of the lower activity levels. Finally, a long spring break up and a late winter reduced the amount of work the Company was able to perform in 2002.

While the factors mentioned above are inherent in the cyclical and seasonal nature of our industry, the profitability of the Company was also adversely impacted by the Company over-investing in the ramp up for work in the Canadian Arctic which did not materialize in the expected volume, and by costs incurred in relocating two divisions to a single shop and yard in Grande Prairie.

The decrease in profitability that accompanied the drop in business volume during 2002 led Management to review the carrying values of the Company's capital assets and goodwill. The result of this review was a $3.9 million write-down of goodwill and an $8.8 million write-down of capital assets.

While the results for 2002 are poor, the Company has worked hard to lower its breakeven point and enhance its future profitability. The positive effects of consolidating operations, heightening divisional co-operation and co-ordination and controlling overhead costs can be seen in the record first quarter results reported by the Company in the first quarter of 2003.

RESULTS OF OPERATIONS

The following compares results for the years ended December 31, 2002 and 2001. Please note that the year ended December 31, 2001 includes minor activity of our now closed International division and includes $1.3 million of revenue for J.C. Electric, which was shutdown at the end of 2001.

REVENUE

Revenue for 2002 was $50.3 million; a $47.8 million or 49% decrease from the $98.1 million recorded in 2001. This decrease in year-to-date revenue is due to:

- low commodity price levels in late 2001 resulting in the Company's customer base operating with significantly lower exploration and capital budgets in 2002.
- capital expenditure freezes and reductions put in place in 2002 due to merger activity between oil and gas exploration and production companies.
- cold weather combined with a deep snow pack extended the second quarter's traditional inactive spring break-up period through to the end of May 2002, effectively reducing the number of revenue generating days in the second quarter by a full month or 50% compared to 2001. Further a late winter pushed work out of 2002 and into the first quarter of 2003.

The Company's Front-End Services business experienced the largest decrease as revenue totaled $23.1 million; a $40.1 million or 63% decrease from the $63.2 million recorded in 2001. Lower seismic exploration activity and price competition were the primary causes of reduced revenue levels in 2002.

The Company's Surface-Preparation business, while following the trend of lower activity in the oil and gas service sector, was not as deeply impacted as the Front-End Services business due primarily to its location in the very active Manning/ Chinchaga /Hamburg region of northwestern Alberta and to having a more diversified customer base than the Company's other businesses. Revenue totaled $13.3 million; a $2.5 million or 16% decrease from the $15.8 million recorded in 2001.

The Company's Post-Drilling Services business also experienced a significant decrease as revenue totaled $13.9 million; a $4.9 million or 26% decrease from the $18.8 million recorded in 2001. Reduced capital expenditures by the customers of the Post-Drilling Services, which was partially due to merger activity between large customers resulting in capital expenditure freezes in the first half of 2002, is the primary reason for the decrease in revenue.

GROSS MARGIN

Gross margin totaled $3.9 million; a $14.5 million or 79% decrease from the $18.4 million recorded in 2001. As a percentage of revenue, gross margin decreased from 18.7% in 2001 to 7.8% for 2002. This overall decrease in gross margin is attributed primarily to the following factors experienced by all operations:

- A reduction in pricing due to increased competition as a result of lower industry activity levels.
- A significant fixed overhead component (salaries, premises) included within the Company's field level operating costs contributes to a decrease in gross margin percentage as revenue decreases.
- Parts inventories were written-down by $0.4 million.

In addition to the factors discussed above, during the first quarter of 2002 the following specific factors contributed to reduced gross margins for certain operating divisions:

- High ramp up costs and difficult drilling conditions on three shot-hole drilling programs in Alberta and the Arctic resulted in lower than normal field margins.
- Adapting to a significant new client's field methodology in our survey and mapping business resulted in lower than normal field margins on one significant project.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses totaled $2.3 million; a $0.6 million or 35% increase from the $1.7 million recorded in 2001. The increase is largely because the 2001 total was net of an expense recovery of $0.4 million, and additional professional fees were incurred in 2002 relating to restructuring ongoing operations.

AMORTIZATION OF CAPITAL ASSETS AND GOODWILL

Amortization of capital assets and goodwill totaled $17.1 million versus $5.1 million in 2001. This $12.0 million increase is due to a $3.9 million write-down of goodwill and a $8.8 million write-down of capital assets taken at December 31, 2002 to provide carrying values that are in line with the future benefits to be provided by these assets. The $12.7 million of amortization resulting from write-downs was offset by $0.3 million of decreased goodwill amortization due to goodwill no longer being amortized effective January 1, 2002 and $0.4 million due to the Company, prior to write-downs, having a lower average net book value in 2002 of capital assets being amortized.

LOSS ON DISPOSAL OF CAPITAL ASSETS

The loss on disposal of capital assets of $0.4 million is a $0.3 million increase over the $0.1 million reported in 2001. With the exception of a loss of $0.2 million being incurred on moving out of the Spruce Grove premises, the balance pertains to the normal course disposition of equipment.

INTEREST EXPENSE

Total net interest expense was $2.3 million, a decrease of $1.1 million or 32% compared to the 2001 total of $3.4 million. The decrease is due to a significant reduction in 2002 in the average balances of each of the Company's operating loan, long–term debt and debentures, as well as lower average prime rates applied in 2002 to the Company's variable rate term debt.

Other income and expense

Other income of $0.2 million in 2002 consists primarily of $0.6 million of income realized on the sale of portfolio securities and the settlement of a long-term note receivable, less about $0.4 million of non-recurring restructuring costs associated with merging our line clearing and shot hole drilling operations into one facility in Grande Prairie.

Gain on disposal of subsidiary company

In 2002 a gain of $0.6 million (reflecting net liabilities disposed) was recognized on the disposition of the Company's International subsidiaries.

Income Taxes

The total net income tax provision for 2002 reflects a decrease in future tax liabilities of $1.4 million due to the operating loss incurred, net of minor current "capital" tax expense. The Company has approximately $10.3 million of unutilized Canadian non-capital tax loss carryforwards available, the benefit of which has not been fully recognized in the financial statements.

Liquidity and Capital Resources

Destiny's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment and capital to finance strategic acquisitions. Sources of funds to satisfy these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and equity markets.

The Company believes that it has the capital resources and availability to meet both its working capital and maintenance capital expenditure requirements for 2003.

Capital for expansion is constrained by the low price of the Company's shares on the TSX and by the current amount of long-term debt the Company is carrying.

Please refer to the "Balance Sheet and Liquidity" section of the Letter to Shareholders for greater detail.

Working Capital

At December 31, 2002 the Company had a working capital deficiency of $0.8 million compared to a working capital surplus of $1.4 million at December 31, 2001. This $2.2 million reduction in working capital is due to lower than expected 2002 operating results that led to lower cash flow from operations.

Capital assets

Capital assets have decreased by $11.2 million from $24.2 million at December 31, 2001 to $13.0 million at December 31, 2002. The net decrease is a result of pre-write-down amortization of $4.4 million, amortization from write-downs of $8.8 million, disposals with total net book value of $1.4 million, offset by capital expenditures totaling $3.4 million. The most significant capital assets acquired were the land and building for the new Grande Prairie, Alberta office and shop and low environmental impact line-clearing equipment used in the Front-end operations.

Long-term debt

Long-term debt decreased by $3.0 million from December 31, 2001 to $6.8 million at December 31, 2002. Repayments totaled $5.3 million, and a total of $2.3 million in new term debt was issued. Proceeds of the new $2.0 million term debt issued in June 2002 were used to finance the purchase of the Grande Prairie field office and shop facility and to replace funds used to self finance past capital expenditures. To assist in preserving cash, repayment of this new term debt does not commence until June 2005. Capital lease obligations of $0.3 million on new equipment purchased were also entered into in 2002.

Debenture

The first semi-annual repayment of principal on the $10.0 million 8% subordinated debenture was due on July 1, 2002. The determination of the repayment amount incorporates cash flow, capital expenditures net of new financing and long-term debt principal repayments for the prior six-month period. Based on this formula, no payment was required at July 1, 2002 or January 1, 2003. As at December 31, 2002, the debenture holder is owed accrued interest of $0.4 million. The payment of this accrued interest has been deferred, with the agreement of the debenture holder, to June 30, 2003.

Shareholders' Equity

In 2002, total shareholders' equity decreased by $14.6 million. The net change is primarily due to the net loss of $16.0 million offset by a $1.6 million increase in issued share capital. The remaining decrease in shareholders' equity in 2002 is due to a $0.2 million charge against retained earnings, recorded effective January 1, 2002, related to implementing new recommendations for the recording of stock based compensation.

On June 28, 2002 the Company closed a private placement of 5,000,000 common share units for net proceeds of $1.3 million. Each of the 5,000,000 units consisted of one common share of the Company and one-half common share purchase warrant. Each whole warrant had an exercise price of $0.32 per share and all of the warrants expired unexercised on December 31, 2002.

Also, in June, 2002 the Company issued 833,333 common shares in settlement of a liability owing in the amount of $0.3 million

Business Risks

Destiny is subject to the risks and variables inherent in the oilfield services industry. Demand for the Company's products and services depends on the exploration, development and production activities of energy companies. These activities are directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be accurately predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels. The risks associated with external competition are minimized by concentrating Company activities in areas where it has demonstrated technical and operational advantages and by employing highly competent professional staff. Environmental standards and egulations are continually becoming more stringent in this industry and Destiny is committed to maintaining its high standards. Destiny also mitigates business risks by establishing strategic alliances with reputable partners, developing new technologies and methodologies as well as investigating new business opportunities.

Outlook

Please refer to the "Outlook for 2003 and beyond" section of the Letter to Shareholders.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Destiny Resource Services Corp.

The consolidated financial statements and other financial information contained in this Annual Report have been prepared by management. Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with Canadian generally accepted accounting principles and reflect amounts based upon management's informed estimates and judgments, as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains appropriate accounting and systems of internal control designed to provide reasonable assurance that reliable and relevant financial information is produced. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse, and financial records are properly maintained to provide reliable financial information for the preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. This Committee, consisting of a majority of non-management directors, meets periodically with management and the Company's external auditors to discuss audit examinations, internal control, accounting policy and financial reporting matters.

The Audit Committee also reviews with management the annual and quarterly consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Company's shareholders. The shareholders have appointed Ernst & Young LLP as the external auditors of the Company to provide an independent professional opinion on the annual consolidated financial statements. The auditors' report to the shareholders is presented in the Annual Report.

Bruce R. Libin, Q.C.
Executive Chairman and Chief Executive Officer

Jim Francis
Corporate Controller

Calgary, Alberta
May 13, 2003

AUDITORS' REPORT

To the Shareholders of Destiny Resource Services Corp.

We have audited the consolidated balance sheets of **Destiny Resource Services Corp.** as at December 31, 2002 and 2001, and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 21, 2003

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31	**2002**	2001
	$	$
ASSETS *[notes 5 and 6]*		
CURRENT		
Cash and cash equivalents	---	2,387,208
Accounts receivable *[notes 5 and 15]*	**7,817,144**	11,703,612
Inventory *[note 5]*	**1,142,353**	2,145,543
Prepaid expenses	**553,279**	579,494
	9,512,776	16,815,857
Other receivables	---	376,374
Capital assets *[notes 3 and 6]*	**13,001,686**	24,217,580
Deferred charges *[note 6(c)]*	**698,498**	1,146,406
Goodwill *[note 4]*	**---**	3,879,520
	23,212,960	46,435,737
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness *[note 5]*	**804,996**	---
Accounts payable and accrued liabilities *[note 12]*	**6,135,167**	11,047,311
Income taxes payable	**26,104**	44,829
Current portion of long-term debt *[note 6]*	**3,326,454**	4,338,116
	10,292,721	15,430,256
Long-term debt *[note 6]*	**3,494,203**	5,493,864
Debenture *[note 6]*	**10,000,000**	10,000,000
Future income taxes *[note 11]*	---	1,493,448
Commitments & contingencies *[notes 5, 6, 7(viii) and 16]*		
Shareholders' (deficiency) equity		
Share capital ***[note 7]***	**8,370,998**	6,777,870
(Deficit) Retained earnings	**(8,944,962)**	7,240,299
	(573,964)	14,018,169
	23,212,960	46,435,737

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Year ended December 31	**2002**	2001
	$	$
Revenue	**50,313,714**	98,141,570
Direct expenses	**46,426,806**	79,757,752
Gross margin	**3,886,908**	18,383,818
Other expenses (income)		
General and administrative	**2,315,295**	1,665,843
Amortization of capital assets and goodwill *[notes 3 and 4]*	**17,122,926**	5,087,100
Loss on disposal of capital assets	**402,781**	88,688
Interest *[note 8]*	**2,252,068**	3,364,698
Other *[note 9]*	**(248,891)**	(169,547)
Gain on disposal of subsidiary company *[note 10]*	**(566,725)**	---
	21,277,454	10,036,782
Income (loss) before income taxes	**(17,390,546)**	8,347,036
Income taxes (recovery) *[note 11]*		
Current	**48,163**	(125,564)
Future	**(1,405,448)**	452,000
	(1,357,285)	326,436
Income (loss) for the year	**(16,033,261)**	8,020,600
Retained earnings (deficit), beginning of year	**7,240,299**	(13,961,343)
Elimination of deficit against share capital *[note 7]*	---	13,961,343
Adjustment upon accounting for stock based compensation *[note 2]*	**(152,000)**	---
Common shares cancelled on settlement of amount receivable and sale of assets *[note 7]*	---	(780,301)
Retained earnings (deficit), end of year	**(8,944,962)**	7,240,299
Earnings (loss) per share *[note 7]*		
Basic	**(0.32)**	0.19
Diluted	**(0.32)**	0.17

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31	**2002**	2001
	$	$
CASH FLOWS PROVIDED BY (USED IN)		
Operating activities:		
Income (loss) for the year	**(16,033,261)**	8,020,600
Items not involving cash:		
Amortization of capital assets and goodwill	**17,122,926**	5,087,100
Amortization of deferred charges	**548,908**	500,260
Loss on disposal of capital assets	**402,781**	280,316
Future income taxes	**(1,405,448)**	452,000
Gain on disposal of subsidiary company	**(566,725)**	
Non-cash expense recovery	---	(806,097)
Gain on collection of other receivables	**(214,911)**	---
Write-down of inventory	**440,877**	---
Non-cash interest expense *[note 6(b)]*	---	603,990
Gain on disposition of investments	---	(38,000)
	295,147	14,100,169
Net change in non-cash working capital *[note 13]*	**185,150**	106,829
	480,297	14,206,998
Financing activities:		
Increase (decrease) in bank indebtedness	**804,996**	(9,421,714)
Issue of long-term debt	**900,000**	---
Repayment of long-term debt	**(5,359,082)**	(5,424,766)
Increase in deferred charges	**(101,000)**	(275,041)
Issue of debentures *[note 6]*	**---**	3,500,000
Proceeds on issuance of common shares, net of share issue costs	**1,343,128**	(129,513)
	(2,411,958)	(11,751,034)
Investing activities:		
Purchase of capital assets	**(2,001,389)**	(3,740,795)
Proceeds on sale of capital assets	**954,557**	2,826,320
Contingent consideration on acquisition	---	(200,000)
Decrease in other receivables	**591,285**	261,626
	(455,547)	(852,849)
Increase (decrease) in cash and cash equivalents	**(2,387,208)**	1,603,115
Cash and cash equivalents, beginning of year	**2,387,208**	784,093
Cash and cash equivalents, end of year	---	2,387,208

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated.

Cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company's cash balances earn interest at a rate of up to prime less 2.85%.

Inventory

Inventory is carried at the lower of cost, determined on a first-in, first-out basis and net realizable value. Start up inventory associated with long-term projects is amortized over the length of the related contract.

Capital assets

Capital assets are recorded at cost. Amortization, other than on gravel pits, is generally applied on a declining balance basis to amortize the cost of the capital assets over their estimated economic useful lives as follows:

Buildings	5% to 20%
Seismic drills and accessories	25%
Tractors and heavy equipment	15% to 25%
Equipment and tools	10% to 30%
Office and computer equipment	20% to 30%
Automotive and tracked vehicles	10% to 50%
Gravel pits	Unit of production

Leased gravel pits are amortized over the term of the lease, on a straight-line basis.

When capital assets are sold or scrapped, the cost of the asset and the related accumulated amortization are removed from the accounts and any resulting gain or loss on disposal is reflected in the Statement of Operations.

Deferred charges

Deferred charges represent the unamortized costs associated with the issuance of debt and are amortized on a straight-line basis over the remaining term of the financings. Amortization of deferred charges is included in interest expense.

Revenue recognition

Revenue on fixed price contracts is recognized using the percentage of completion method. Under this method, revenue is recognized over the period of the contract either in the proportion that costs incurred to date bear to total estimated contract costs or when specific milestones are met as determined by the contract. When a loss is foreseen on completion of a contract, an allowance for the loss is provided in the accounts.

Revenue on all other contracts is recognized at the time the services are provided.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change substantively occurs.

Foreign currency translation

Monetary assets and liabilities which are denominated in a foreign currency are translated at year-end exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains and losses are reflected in other income or expense.

Per Share amounts

The Company utilizes the treasury stock method in the determination of diluted earnings (loss) per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that the proceeds arising from the exercise of outstanding in the money options are used to repurchase common shares of the Company at their average market price for the period.

Leases

Leases that transfer substantially all the benefits and inherent risks of ownership of the property leased are recorded by the Company as a capital lease at the inception of the lease. The present value of the future payments under such leases is recorded as capital assets (and amortized over their estimated useful lives) and related long-term debt. All other leases are classified as operating leases (see note 16(a)) under which lease payments are recorded as expenses in the period in which they are incurred.

Measurement uncertainty

As a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Significant estimates are used in determining such items as allowance for doubtful accounts, provision for inventory obsolescence, useful lives and recoverable values of capital assets, and accruals for repair and maintenance. Actual results could differ from those estimates. Estimates are reviewed on a regular basis, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

2. CHANGES IN ACCOUNTING POLICY

Goodwill

Goodwill represents the excess of cost over the fair market value of the net assets of companies acquired in purchase transactions. Effective January 1, 2002, the Company adopted the new CICA standards for goodwill and other intangibles. The new standard requires that goodwill and certain intangibles are no longer subject to amortization, but are instead tested for impairment at least annually. The impairment test, based on operating results and the estimated minimum realizable value of capital assets of the businesses so acquired, was performed as at December 31, 2002 and determined that the carrying value of goodwill was to be written down by $3,879,520 (see note 4).

Prior to 2002, goodwill was amortized on a straight-line basis over the expected remaining period of benefit, which ranged from 2 to 10 years. Had the impairment write-down and the new standard not been applied, net income for 2002 would have been reduced by approximately $300,000 ($0.01 per share).

Stock Based Compensation

The Company has a stock option plan as described in note 7. Effective January 1, 2002 the Company adopted CICA 3870 *Stock-based Compensation and Other Stock-based payments*, and has applied this change prospectively for new stock option awards granted on or after January 1, 2002. Prior to 2002, the Company recognized no compensation when stock or stock options were issued. The Company has chosen to recognize no compensation when stock options with no cash settlement features are granted to employees and directors under its stock option plan. Any consideration received by the Company on exercise of stock options is credited to share capital.

Direct awards of stock to employees and stock options granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock and the fair value for these options is estimated at the date of granting using a Black-Scholes Option Pricing Model.

This new standard requires the presentation of pro-forma net loss as if the Company had accounted for its employee stock options granted after December 31, 2001 under the fair value method. The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions: weighted-average risk-free interest rates of 5.58%; dividend yields of 0%; weighted-average volatility factors of the expected market price of the Company's common shares of 98.3%; and a weighted-average expected life of the options of 7 years. For purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro-forma net loss under Canadian GAAP would be increased by approximately $20,000 for 2002. Basic and diluted earnings/(loss) per share figures would have been reduced by nil.

The Company may also grant to selected executives and other key employees stock appreciation rights which are settled in cash. The new standard requires that awards, including stock appreciation rights ("SARs"), that call for settlement in cash or other assets, are to be measured as the amount by which the quoted market value of the shares of the enterprise's stock covered by the grant exceeds the market price of the underlying stock. Changes, either increases or decreases, in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of compensation for the right. Prior to 2002, the Company recognized no compensation when SARs were issued. The cumulative SARs outstanding as at the date of adoption that would have been recognized in prior years had this standard been applied have been recognized as a reduction of 2002 opening retained earnings of $152,000 (net of future income taxes of $88,000).

3. CAPITAL ASSETS

		2002	
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Buildings	6,234,045	3,867,060	2,366,985
Seismic drills and accessories	5,680,097	4,966,145	713,952
Tractors and heavy equipment	17,812,086	12,004,603	5,807,483
Equipment and tools	4,211,738	3,350,920	860,818
Office and computer equipment	1,886,865	1,630,079	256,786
Automotive and tracked vehicles	9,008,326	6,797,028	2,211,298
Gravel pits	829,398	829,398	-
Land	434,870	11,546	423,324
Capital assets held for resale	598,540	237,500	361,040
	46,695,965	33,694,279	13,001,686

		2001	
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Buildings	6,033,396	1,715,267	4,318,129
Seismic drills and accessories	6,722,518	3,663,075	3,059,443
Tractors and heavy equipment	18,961,383	8,987,802	9,973,581
Equipment and tools	3,956,932	2,101,857	1,855,075
Office and computer equipment	1,824,860	1,189,977	634,883
Automotive and tracked vehicles	8,899,572	5,315,950	3,583,622
Gravel pits	829,398	376,422	452,976
Land	339,871	---	339,871
	47,567,930	23,350,350	24,217,580

Included in the above totals are amounts related to capital assets which were financed under equipment purchase contracts (note 6(a)) that are outstanding at December 31 as follows:

	Cost $	Accumulated Amortization $	Net Book Value $
		2002	
Automotive, tractors and heavy equipment	6,289,219	2,550,687	3,738,532
		2001	
Automotive, tractors and heavy equipment	8,669,630	2,572,439	6,097,191

Buildings and seismic drills include assets under construction of $nil (2001 - $1,232,376), which were not subject to amortization.

Amortization expense includes a write-down of the carrying value of capital assets in the amount of $8,844,596 (2001 - $nil).

Additions to capital assets reported in the Statement of Cash Flows excludes non-cash expenditures of $347,759 (2001 - $689,463) which were financed under equipment purchase contracts and $1,100,000 (2001 - $nil) which were financed under term loans.

4. GOODWILL

	2002 **$**	2001 $
Cost base	**5,742,021**	5,142,021
Contingent consideration issued in the year (i)	**---**	600,000
Accumulated amortization	**(1,862,501)**	(1,862,501)
Write down (ii)	**(3,879,520)**	---
	---	3,879,520

(i) During the year ended December 31, 2001 $600,000 was recorded as goodwill following additional consideration (which was contingent upon results of operations subsequent to acquisition achieving a predetermined amount) being credited to the former shareholder of an acquired subsidiary.

(ii) Based on operating results and the estimated minimum realizable value of capital assets, as at December 31, 2002 the Company included in amortization expense a write down of the carrying value of its goodwill in the amount of $3,879,520 (2001 – nil).

5. BANK INDEBTEDNESS

As at December 31, 2002, the Company had available a $20,000,000 bank operating loan facility. Draws on this facility are repayable on demand and bear interest at prime plus 1.25%. As at December 31, 2002, the Company had $1,068,188 (2001 - $nil) outstanding on the facility. The average effective rate for the year ended December 31, 2002 was 5.4% (2001 - 7.3%). The Company's ability to draw on this facility is primarily dependent upon its accounts receivable that are less than 90 days outstanding. The Company has provided a first charge on all accounts receivable and inventory and a subordinated charge on all other assets as collateral for the operating loan facility. Included in this facility are letters of guarantee totaling $410,000 (2001 - $390,000) which expire in 2003. As at December 31, 2002, the Company was not in compliance with certain financial ratio covenants required under the credit agreement. The Company is renegotiating the terms of the operating loan facility.

6. LONG-TERM DEBT AND DEBENTURES

a) Long-term debt

	2002 **$**	2001 $
Term loan 1, due August 2004 (i), (iii)	**2,716,636**	5,661,029
Term loan 2, due February 2006 (ii), (iii)	**900,000**	---
Term loan 3, due February 2012 (ii), (iii)	**1,100,000**	---
Equipment purchase contracts (iv)	**2,104,021**	3,970,951
Due to vendor on acquisition of subsidiary (v)	**---**	200,000
	6,820,657	9,831,980
Less current portion	**3,326,454**	4,338,116
	3,494,203	5,493,864

(i) Term loan 1 bears interest at the Canadian dollar banker's acceptance rate plus 3.0%, which for 2002 averaged 6.21% (2001 – 7.75%). The minimum principal repayments required are $1,773,000 per year, payable in nine monthly installments of $197,000. To recognize the seasonality of the oil and gas service sector, no payments are required in March, April or May. The Company has provided a first charge on specific capital assets and a floating charge on all other assets as collateral for the term loan.

(ii) Term loans 2 and 3 bear interest at the lenders floating base rate plus 3.25%, which for 2002 averaged 6.51%. The Company has provided a first charge on specific capital assets and a floating charge on all other assets as collateral for these term loans. Total annual principal repayments for term loan 2 are 2005 - $700,000, and 2006 - $200,000 and for term loan 3 are $158,000 (commencing June 2005).

(iii) The term loans 1, 2 and 3 contain certain financial and non-financial covenants. As at December 31, 2002, the Company was not in compliance with one of the covenants. Subsequent to year-end, the Company and the lender agreed to a temporary elimination of the covenant.

(iv) Equipment purchase contracts bear interest at varying fixed rates which averaged 7.98% as at December 31, 2002 (2001 – 8.61%) and mature in the years 2003 to 2006. Specific items of contractors' equipment and vehicles have been pledged as collateral for the loans.

(v) Due to vendor on acquisition of a subsidiary was non-interest bearing and was repaid in January 2002

The aggregate amount of principal to be repaid is approximately as follows:

	$
2003	3,326,454
2004	1,326,000
2005	949,000
2006	386,000
2007	171,000
2008 to 2012	662,203
	6,820,657

b) Debentures

(i) In 1999 the Company issued an 8% five year subordinated debenture to First Reserve Fund VIII, L.P. ("First Reserve"), which at the time owned approximately 63% of the Company's outstanding common, for gross proceeds of $10,000,000 (net proceeds of $9,020,514 after deducting $979,486 in costs). The debenture matures on July 2, 2004 and is secured by a floating charge on all assets.

The debenture requires semi-annual principal payments to a maximum annual amount of $2,500,000 to commence June 30, 2002 (the "Sweep Payments"). The determination of the Sweep Payments incorporates cash flow, capital expenditures net of new financing and long-term debt principal repayments for the prior six-month period. The Company was not required to make a Sweep Payment in 2002, and estimates that it will also not be required to do so in 2003.

The debenture agreement contains certain financial and non-financial covenants. As at December 31, 2002, the Company was not in compliance with one of the covenants. Subsequent to year-end, the Company and the lender agreed to a temporary elimination of the covenant, and accordingly the debenture continues to be classified as long-term.

Accrued liabilities at December 31, 2002 includes accrued interest payable on the debenture of $403,287 which was to be paid in January 2003. The debenture holder has agreed to defer the payment of this unpaid interest until June 30, 2003.

In 2001 the debenture holder agreed to convert accrued interest owing on the debenture to June 30, 2001 (after which time interest became payable in cash on a semi-annual basis) into common shares of the Company as follows (see note 7(iii)):

Interest accrued to December 31, 2000, converted at $0.25 per share into 5,028,128 common shares	$1,257,032
Interest accrued for the period January 1 to June 30, 2001, converted (at prices ranging from $0.20 to $0.37 per share) into 1,525,869 common shares	$396,712

(ii) On January 16, 2001, the Company issued to First Reserve a $3.5 million 13% subordinated debenture, which was convertible at the option of the holder into common shares of the Company at $0.28 per share if the debenture was not repaid on or before June 30, 2001. On June 30, 2001, the $3.5 million debenture was converted into 12,500,000 common shares (see note 7(iv)), together with $207,278 of accrued interest owing which was converted into 560,211 common shares at $0.37 per share.

c) Deferred charges

Deferred charges related to long-term debt facilities includes $101,000 (2001 - $275,041) which was incurred and capitalized in the year.

d) Financial covenants

The Company's ongoing ability to meet its financial covenants on the debenture and the term loans is primarily dependent on industry conditions. Accordingly, the Company may become in violation of its covenants at a later date, which might result in repayment being demanded, which would necessitate the debt becoming classified as a current liability.

7. SHARE CAPITAL

	2002		2001	
	#	$	#	$
Authorized				
Unlimited number of common, first preferred and second preferred shares				
Issued - Common shares				
Beginning of year	**46,878,476**	**6,777,870**	29,442,518	15,526,659
Issued for cash on private placement (i)	**5,000,000**	**1,500,000**	---	---
Issued on settlement of accrued liability (ii)	**833,333**	**250,000**		
Issued on conversion of accrued interest payable (iii)	---	---	7,114,208	1,861,022
Issued on conversion of debenture payable (iv)	---	---	12,500,000	3,500,000
Issued for contingent consideration on acquisition of subsidiary (v)	---	---	100,000	300,000
Cancelled on settlement of amounts receivable and sale of assets (vi)	---	---	(2,278,250)	(318,955)
Share issue costs for the year	---	**(156,872)**	---	(129,513)
	52,711,809	**8,370,998**	46,878,476	20,739,213
Elimination of share capital against deficit (vii)	---	---	---	(13,961,343)
End of year	**52,711,809**	**8,370,998**	46,878,476	6,777,870

(i) On June 28, 2002 the Company completed a private placement at $0.30 per unit, for gross proceeds of $1.5 million ($1.34 million net of costs incurred). Each of the 5,000,000 units issued consisted of one common share and a one-half common share purchase warrant. The 2,500,000 common share purchase warrants had an exercise price of $0.32 each and all expired on December 31, 2002 without being exercised.

(ii) Effective June 21, 2002 the Company issued to a director and officer of the Company a total of 833,333 common shares at a price of $0.30 in settlement of an accrued liability.

(iii) During 2001 the Company converted a total of $1,861,022 accrued interest owing on debentures in exchange for 7,114,208 common shares, as described in note 6(b). The price used to convert the interest to shares was equal to the weighted average market price of the Company's common shares for the ten days prior to conversion.

(iv) On June 30, 2001 the Company issued 12,500,000 common shares at $0.28 (which was the market price of the Company's common shares at the conversion date) on conversion of the 13%, $3,500,000 debenture.

(v) At December 31, 2000, contingent consideration of $300,000 was owing to the former owners of an acquired subsidiary, with payment based upon operating performance targets of the subsidiary. A total of 100,000 common shares were issued in 2001 in settlement of this contingency.

(vi) During 2001, in consideration for the sale of certain non-core assets and the settlement of amounts owed to the Company, 2,278,250 common shares held by former officers and directors of the Company were received for cancellation. The transaction was valued at $1,099,256 based on the $0.4825 per share market price of the Company's common shares when the agreement was signed. The $780,301 excess of the market price over the $318,955 carrying value of the shares cancelled was charged to retained earnings.

(vii) At prior Annual General Meetings, the shareholders of the Company have passed special resolutions to eliminate against share capital the Company's deficit position as follows:

Annual General Meeting date	Deficit position as at date of	Deficit amount $
June 27, 2001	December 31, 2000	13,961,343
June 27, 2000	December 31, 1999	13,040,385
November 10, 1999	May 31, 1999	7,624,285

(viii) Contingent consideration related to the 1998 McConnell Group acquisition could result in the issue of up to 250,000 common shares (at prevailing market rates).

(ix) The holder of a previously redeemed debenture holds 3,175,000 common share purchase warrants, which expire on October 31, 2003 and have an exercise price of $3.045 per share.

Stock Options

The Company has a fixed stock option ("option") plan under which the Company may grant to directors, officers, management and employees options to purchase up to 4,998,000 common shares. The exercise price of each option equals the closing price of the Company's stock on the last trading date preceding the date of grant. An option's term and vesting provisions can vary as specified in the option's agreement, with a maximum term of 7 years from the date of grant, and vesting eamed over a maximum 5 year period. A summary of the status of the stock option plan is as follows:

	2002		2001	
	# of Options	**Weighted Average Exercise Price $**	**# of Options**	**Weighted Average Exercise Price $**
Outstanding at beginning of year	**3,372,500**	**0.37**	2,127,500	1.00
Granted	**790,000**	**0.30**	2,800,000	0.31
Exercised	**---**	**---**	---	---
Cancelled	**(1,005,000)**	**(0.24)**	(1,555,000)	(1.12)
Outstanding at end of year	**3,157,500**	**0.39**	3,372,500	0.37
Options exercisable at end of year	**1,798,000**	**0.42**	1,186,500	0.43

Range of Prices $	**Number of Outstanding Options**	**Weighted Average Exercise Price $**	**Weighted Average Years to Expiry**	**Number of Options Exercisable**	**Weighted Average Exercise Price Of Exercisable Options $**
0.20 – 0.37	2,792,500	0.32	5.5	1,495,000	0.31
0.50 – 0.65	215,000	0.51	3.5	163,000	0.50
1.00 – 2.50	150,000	1.53	2.5	140,000	1.57
	3,157,500			1,798,000	

Earnings (loss) per share

The numerators and denominators used in the calculation of basic net earnings (loss) per common share are determined as follows:

	2002	2001
Numerator:		
Net earnings (loss) available to common shareholders	**($16,033,261)**	$8,020,600
Denominator:		
Number of shares outstanding at beginning of year	**46,878,476**	29,442,518
Weighted average number of shares issued during year	**3,004,566**	11,718,136
Weighted average number of shares outstanding at end of year	**49,883,042**	41,160,654

The numerators and denominators used in the calculation of diluted net earnings (loss) per common share are determined as follows:

	2002	2001
Numerator:		
Net earnings (loss) as reported	**($16,033,261)**	$8,020,600
Add: Interest, net of income tax, on 13% convertible subordinated debenture (note 6(b)(ii))	---	118,574
Net diluted earnings (loss)	**($16,033,261)**	$8,139,174
Denominator:		
Weighted average number of share outstanding at end of year – basic	**49,883,042**	41,160,654
Effect of potentially dilutive securities:		
Exercise of "in-the-money" options	**172,000**	320,845
Conversion of 13% subordinated debenture	---	5,332,496
Other	---	350,747
Weighted average number of shares outstanding at end of year - diluted	**50,055,042**	47,164,742

Excluded from the diluted earnings per share amount are 3,047,500 (2001 – 672,500) "out-of-the money" options and warrants the impact of which was anti-dilutive.

8. INTEREST EXPENSE

	2002 $	2001 $
Short-term bank indebtedness	**343,075**	684,573
Long-term debt (i)	**1,392,518**	2,212,551
Other interest (income)	**(32,433)**	(32,686)
Amortization of deferred charges	**548,908**	500,260
	2,252,068	3,364,698

(i) Interest on long-term debt includes interest of $269,631 (2001 - $371,263) incurred on equipment purchase contracts.

9. OTHER EXPENSES (INCOME)

	2002 $	2001 $
Loss (gain) on sale of investments and other assets (i)	**(634,539)**	191,628
Foreign exchange	**7,584**	(241,613)
Restructuring charges	**376,985**	---
Investment and other	**1,079**	(119,562)
	(248,891)	(169,547)

(i) Gain on sale of investments and other assets in 2002 primarily includes a gain of $214,911 recognized on the collection of long-term receivables and $419,628 from the sale of marketable securities.

10. GAIN ON DISPOSAL OF SUBSIDIARY COMPANY

Effective December 19, 2002, the Company disposed of its shareholdings in the inactive, former international operations group, Destiny Holdings Overseas Ltd. ("DHOL"), including all of its subsidiary companies. The transaction was with an arms-length corporation for consideration consisting of $2 and the assignment to the purchaser of various balances receivable from DHOL. The DHOL group had a net liability position, which resulted in a non-cash gain on disposition of $566,725 as follows:

	$
Inventory	49,553
Capital assets	32,947
Accounts payable and accrued liabilities	(633,565)
Income taxes payable	(15,660)
	(566,725)

11. INCOME TAXES

Income tax expense (recovery) varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate for the following differences:

	2002 **$**	2001 $
Corporate tax rate	**39.25%**	42.12%
Provision for income taxes (recovery) at combined rate	**(6,825,785)**	3,515,711
Increase (decrease) in income taxes from:		
Non-recognition of future tax assets	**4,229,910**	---
Non-deductible write-down and amortization of goodwill	**1,522,712**	136,536
Non-deductible (non-taxable) portion of other expense / (income)	**(79,300)**	---
Gain on disposition of international subsidiary companies	**(222,440)**	---
Lower effective income tax rate on losses (income) of of foreign subsidiaries	**(30,545)**	278,465
Decrease due to reduction in future tax rates	**---**	(250,000)
Benefit of previously unrecognized non-capital losses carried forward	**---**	(3,184,050)
Large corporations tax and other	**48,163**	37,377
Other	**---**	(207,663)
	(1,357,285)	326,436

Components of future income taxes

The Company has unrecognized net future tax assets as reflected by the valuation adjustment reported below. The net future tax asset / (liability) is comprised of:

	2002 **$**	2001 $
Differences between tax base and reported amounts of depreciable assets	**(111,394)**	(3,804,781)
Non-capital loss carry-forwards	**3,809,052**	2,014,757
Net operating loss carry forwards from foreign operations	**---**	2,487,857
Deferred charges and other	**276,097**	296,576
Valuation allowance on net operating loss carry-forwards	**(3,973,755)**	(2,487,857)
Future tax asset (liability)	**---**	(1,493,448)

The Company has available Canadian non-capital losses carried forward of approximately $10,250,000, the benefit of which has been only partially recognized in these financial statements. These losses expire as follows:

	$
2004	513,545
2005	209,767
2006	729,327
2007	4,069,723
2008	2,891
2009	4,726,282
	10,251,535

12. TRANSACTIONS WITH SHAREHOLDERS AND RELATED PARTIES

In addition to the transactions in 2002 and 2001 with the debenture holder, First Reserve (see notes 6(b) and notes 7(iii) and 7(iv)), and the transactions with an officer of the Company (note 7(ii)) and former officers and directors (note 7(vi)), approximately $242,000 (2001 - $933,000) was charged to the Company under the terms of equipment rental agreements with certain shareholders and employees associated with one of the business segments of the Company. Of these charges, approximately $63,000 is included in accounts payable at December 31, 2002 (2001 - $175,000). These transactions were in the normal course of operations and are recorded at their exchange amount.

13. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002 $	2001 $
Accounts receivable	**3,886,468**	9,121,032
Inventory	**512,760**	(225,274)
Prepaid expenses	**26,215**	41,585
Accounts payable and accrued liabilities	**(4,237,228)**	(8,610,560)
Income taxes payable	**(3,065)**	(219,954)
	185,150	106,829
Supplemental information:		
Cash interest paid during the year	**1,704,851**	2,357,420
Cash taxes paid during the year	**51,228**	44,412

14. SEGMENTED INFORMATION

The Company provides services to the oil and gas exploration industry in the Western Canadian Sedimentary Basin and the Arctic.

The Company's reportable segments: front-end services, surface preparation, and post drilling services, have been defined by their role in the three main segments of the oil and gas exploration process - identifying a potential wellsite, drilling the well and the production and distribution of oil and gas. The Company's other operations in 2002 and 2001 represented business units that have been discontinued, including international activity.

Front-end services are primarily utilized in the seismic process and involve mapping and surveying, seismic line clearing and seismic shothole drilling services thereby facilitating the process of seismic data acquisition by geophysical contractors.

Surface preparation services include the construction of access roads and wellsites prior to drilling a well and subsequent reclamation work on wellsites after completion of drilling.

Post drilling services involve the construction and maintenance of oil and gas processing facilities and the laying and connecting of pipelines to major distribution systems.

The Company reports these segments on the basis of revenue and net income before taxes.

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies.

Segmented information for the years ended December 31, 2002 and December 31, 2001 is as follows:

2002

	Front-End Services $	**Surface Preparation** $	**Post Drilling** $	**Other** $	**Combined** $
Revenue	23,139,170	13,296,083	13,878,461	---	50,313,714
Net income (loss) before taxes (1)	(8,599,585)	(5,773,375)	(3,643,712)	626,126	(17,390,546)
Total assets	9,101,097	9,113,207	4,998,656	---	23,212,960
Goodwill	---	---	---	---	---
Capital expenditures (2)	2,708,033	636,368	104,747	---	3,449,148

2001

	Front-End Services $	Surface Preparation $	Post Drilling $	Other $	Combined $
Revenue	63,168,075	15,814,241	18,786,794	372,460	98,141,570
Net income (loss) before taxes (1)	10,134,526	(189,405)	82,223	(1,680,308)	8,347,036
Total assets	18,935,877	16,916,997	9,822,115	760,748	46,435,737
Goodwill	2,568,212	1,311,308	---	---	3,879,520
Capital expenditures (2)	3,149,766	781,585	762,604	2,615	4,696,570

(1) Includes an allocation of corporate general and administrative expenses and interest expense.
(2) Total includes non-cash expenditures financed under equipment purchase contracts and long-term debt.

15. FINANCIAL INSTRUMENTS

a) Credit risk

The Company's sales are to customers in the oil and gas industry, which results in a concentration of credit risk. The Company generally extends unsecured credit to these customers, and therefore the collection of these receivables may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which the Company extends credit. The Company has not previously experienced any material credit losses on the collection of accounts receivable.

Approximately 20% of accounts receivable at December 31, 2002 (2001 – 37%) and 26% of external revenues for the year then ended (2001 – 53%), were represented by one customer.

b) Interest rate risk

The Company is exposed to interest rate risk related to interest expense on its long-term debt facilities.

c) Fair value of financial assets and liabilities

The Company has financial instruments consisting of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, debenture and long-term debt. The carrying value of these instruments approximates fair value unless otherwise stated. At December 31, 2002, the value of the debenture based on prevailing interest rates for debt instruments of a similar nature and term was $10,163,286 (2001 - $10,145,551).

16. COMMITMENTS & CONTINGENCIES

a) Operating leases

The Company's minimum future annual payments required under operating lease commitments for premises, vehicles, and equipment are approximately as follows:

	$
2003	829,000
2004	487,000
2005	342,000
2006	290,000
2007	277,000
Thereafter, 2008 to 2010	832,000
	3,057,000

b) Litigation

The Company, through the performance of its service obligations, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury or operations not considered to be complete. The Company maintains a level of insurance coverage considered appropriate by management for matters for which insurance coverage can be maintained.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current years presentation.

2003 FIRST QUARTER INTERIM REPORT

FOR THE THREE MONTHS ENDED MARCH 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results for the three months ended March 31, 2003 and 2002 is based upon the Company's consolidated financial statements, which were prepared in accordance with Canadian generally accepted accounting principles, and should be read in conjunction with the Company's consolidated financial statements and Annual Report for the year ended December 31, 2002.

OVERVIEW

The first quarter of 2003 saw Destiny Resource Services Corp. return to profitability in record setting fashion. High demand for all of our services and the absence of adverse weather conditions, combined with steps taken in 2002 and 2001 to reduce costs and to increase administrative and operational efficiencies added up to very successful first quarter. All but one of our five businesses exceeded the results reported in the first quarter of 2002 with the fifth falling short by only a few dollars. More impressively, Battle River Holdings, Wolf Survey & Mapping and the McConnell Group all had higher net income than reported in the first quarter of 2001, which was our previous record first quarter.

RESULTS OF OPERATIONS

The following analysis compares results for the three-month quarter end periods March 31, 2003 ("Q1-03") and March 31, 2002 ("Q1-02").

REVENUE

All but one of our five operating businesses experienced revenue growth vs. Q1-02, with overall revenues totaling $22.0 million, a 48% increase from the $14.9 million recorded in 2002.

Demand for seismic shot-hole drilling services, particularly in the Arctic, continued to be depressed into Q1-03, and accordingly Double R Drilling's revenues of $2.7 million were about 10% off from the Q1-02 level of $3.0 million. The 3 Front-end Services divisions combined revenues, however, were $10.7 million, a 39% improvement over the Q1-02 total of $7.7 million. Line Clearing revenues improved 68% to $3.2 million from $1.9 million, while Wolf Survey & Mapping, which continues to be rewarded by its customers for its innovative and high quality services saw revenues improve 71% to $4.8 million from $2.8 million.

Revenues for the Surface-Preparation division (north-western Alberta based Battle River Oilfield Construction) were $7.2 million, a 41% increase from the $5.1 million for Q1-02. This increase can be attributed to a slow freeze pushing some 2002 work into Q1-02 and to good weather conditions holding right through to the end of the quarter.

The combined Post-Drilling Services businesses, Destiny Welding & Construction and Team Pipeline, experienced a 95% increase in revenues to $4.1 million as compared to $2.1 million for Q1-02. The lower 2002 levels were largely the result of capital expenditures freezes put in place due to merger activity between some of its largest customers.

GROSS MARGIN

Gross margin increased to $4.0 million from $2.0 million in Q1-02. As a percentage of revenue, gross margins improved to 18.0% vs. 13.5% for Q1-02, which can be attributed to the following factors:

- An improvement in 2003 pricing due to higher industry activity levels.
- Operating with higher utilization rates in Q1-02 reduced the impact of the fixed component that exists in the Company's field level overhead costs.
- Q1-02 also reflected lower than normal margins (1) in the survey and mapping division as it moved to adapt to a significant new client's field methodology and (2) in the Front-end / Drilling division due to difficult drilling conditions on three shot-hole drilling programs in Alberta and the Arctic.

General and Administrative

General and administrative expenses were 18% lower in Q1-03, at $0.5 million compared to $0.6 million for Q1-02. The 2003 total is lower primarily due to initiatives undertaken in 2001 and 2002 at the corporate office, to do more with less, by streamlining administrative processes and reducing the number of staff.

Amortization of Capital Assets

Amortization of capital assets was $0.7 million versus $1.0 million in Q1-02. This 35% decrease is due to a much lower net book value subject to amortization in 2003, following the significant write-downs in carrying value of capital assets that was recorded as at December 31, 2002.

Interest

Interest expense was approximately $0.6 in both Q1-03 and Q1-02. Interest expense on long-term debt decreased slightly from the Q1-02 level, but this was offset by an increase in short-term interest expense. Due to higher levels of operating activity in 2003, the short-term bank operating loan had a higher average outstanding balance in Q1-03 vs. Q1-02.

Other

Other expense of $0.7 million for Q1-02 represented non-recurring costs associated with merging our line clearing and shot-hole drilling operations into one combined new facility in Grande Prairie.

Income Taxes

Total income tax expense reflected a net recovery $0.3 million in Q1-02 vs. a current expense of $12,000 in Q1-03. As the Company had substantial unrecorded future tax assets at December 31, 2002, from unutilized non-capital tax losses carried-forward, no income tax expense was required to be recognized in Q1-03.

Working Capital, Liquidity and Capital Resources

Due to strong operating results, a significant improvement was made to the Company's financial position in Q1-03, with working capital improving by $2.3 million to $1.5 million as compared to the deficiency at December 31, 2002 of $0.8 million. With the Company's expectations for improved operating results in 2003, the Company is confident that it has the capital resources to meet both its working capital and maintenance capital expenditure requirements for the balance of 2003.

As discussed in the CEO's Message, the Company is in process of renegotiating existing financial covenants covering the bank operating line, the long-term loans, and the $10 million debenture.

The $10.0 million 8% subordinated debenture has a 5-year term which matures June 30, 2004. The debenture has a "sweep payments" mechanism whereby semi-annual repayments of principal, to an annual maximum of $2.5 million, were to commence June 30, 2003. To date no such sweep payments have been due. As at March 31, 2003, the debenture holder is owed accrued interest of $0.6 million, payment of which has been deferred to June 30, 2003, following completion of the current term debt renegotiations as noted above.

Destiny's capital requirements consist primarily of working capital necessary to fund ongoing operations, and capital expenditures related to the purchase of operating equipment. Sources of funds to satisfy these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and equity markets.

Please refer to the "Balance Sheet and Liquidity" section of the CEO's Message for greater detail.

Shareholders' Equity

During the three months ended March 31, 2003, shareholders' equity increased by $2.2 million, representing the net income for the period. There were no changes in share capital during the Q1-03 period.

Business Risks

Destiny is subject to the risks and variables inherent in the oilfield services industry. Demand for the Company's products and services depends on the exploration, development and production activities of energy companies.

These activities are directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be accurately predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels. The risks associated with external competition are minimized by concentrating Company activities in areas where it has demonstrated technical and operational advantages and by employing highly competent professional staff. Environmental standards and regulations are continually becoming more stringent in this industry and Destiny is committed to maintaining its high standards. Destiny also mitigates business risks by establishing strategic alliances with reputable partners, developing new technologies and methodologies as well as investigating new business opportunities.

Outlook

Please refer to the "Outlook for 2003 and beyond" section of the CEO's Message.

This report, or any part of it, may include comments that do not refer strictly to historical results or actions and may constitute forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or of the industry to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include general and industry economic and business conditions which, among other things, affect the demand for the services of the Company; competitive factors and industry capacity; the availability of personnel to manage the Company and manage and deliver its services; the ability of the Company to finance and implement its business strategy; changes in, or the failure to comply with, government law and regulations (especially relating to health, safety and environment); weather; and other such risks as may be identified in this report or in other published documents. Accordingly, there is no certainty that the Company's plans will be achieved.

CONSOLIDATED BALANCE SHEETS

($000s)	**March 31, 2003 $**	December 31, 2002 $
ASSETS *(notes 3 and 4)*	*(unaudited)*	
Current		
Accounts receivable	**17,448**	7,817
Inventory	**1,140**	1,142
Prepaid expenses	**330**	553
	18,918	9,512
Capital assets	**13,025**	13,001
Deferred financing charges	**543**	699
	32,486	23,212
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness *(note 3)*	**4,835**	805
Accounts payable and accrued liabilities	**9,272**	6,135
Income taxes payable	**38**	26
Current portion of long-term debt *(note 4)*	**3,218**	3,326
	17,363	10,292
Long-term debt *(note 4)*	**3,454**	3,494
Debenture *(note 5)*	**10,000**	10,000
Future income taxes	**-**	-
Shareholders' equity		
Share capital	**8,371**	8,371
Deficit	**(6,702)**	(8,945)
	1,669	(574)
	32,486	23,212

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

	Three Months Ended	
(unaudited)	March 31,	
	2003	2002
($000s, except per share amounts)	**$**	$
Revenue	**22,043**	14,912
Direct expenses	**18,063**	12,905
Gross margin	**3,980**	2,007
Other expenses		
General and administrative	**474**	577
Amortization of capital assets	**674**	1,040
Interest	**564**	549
Other	**13**	729
	1,725	2,895
Income (loss) before income taxes	**2,255**	(888)
Income taxes (recovery)		
Current	**12**	12
Future	**-**	(342)
	12	(330)
Net income (loss) for the period	**2,243**	(558)
Retained earnings (deficit), beginning of period	**(8,945)**	7,240
Adjustment upon adoption of accounting for stock based compensation *(note 2)*	**-**	(152)
Retained earnings (deficit), end of period	**(6,702)**	6,530
Earnings (loss) per share		
Basic	**0.04**	(0.01)
Diluted	**0.04**	(0.01)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	Three Months Ended March 31,	
	2003	2002
(000s)	**$**	$
CASH FLOWS PROVIDED BY (USED IN):		
Operating activities		
Net income (loss) for the period	**2,243**	(558)
Items not involving cash:		
Amortization of capital assets	**674**	1,040
Future income taxes	**-**	(342)
Non-cash expense recovery	**-**	(240)
Amortization of deferred charges	**156**	134
Loss (gain) on disposal of capital assets	**14**	204
Cash flow from operations	**3,087**	238
Net change in non-cash working capital	**(6,257)**	(4,317)
	(3,170)	(4,079)
Financing activities		
Net increase in bank indebtedness	**4,030**	3,972
Repayment of long-term debt	**(1,027)**	(1,472)
Increase in long-term debt	**319**	-
	3,322	2,500
Investing activities		
Purchase of capital assets	**(268)**	(913)
Proceeds on sale of capital assets	**116**	80
Decrease in other receivables	**-**	25
	(152)	(808)
Decrease in cash for the period	**-**	(2,387)
Cash, beginning of period	**-**	2,387
Cash, end of period	**-**	-

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2003
($000S; UNAUDITED)

1. Basis of Presentation

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. Except as noted below, the interim financial statements follow the same significant accounting policies as described and used in the most recent annual report of the Company for the year ended December 31, 2002 and should be read in conjunction with that report.

2. Stock Based Compensation

Direct awards of stock to employees and stock option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined by the quoted market price of the Company's stock and the fair value for these options is estimated at the date of granting using a Black-Scholes Option Pricing Model. No compensation expense is recognized when stock options with no cash settlement features are granted to employees and directors under the Company's stock option plan. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

Effective January 1, 2002, pro-forma net income (loss) is calculated as if the Company had accounted for its employee stock options granted under the fair value method. The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions for 2003 and 2002: weighted-average risk-free interest rates of 5.58%; dividend yields of 0%; weighted-average volatility factors of the expected market price of the Company's common shares of 98.3%; and a weighted-average expected life of the options of 7 years. The Company's pro forma net income under Canadian GAAP would be reduced by $nil (2002 – $19) for the three months ended March 31. Basic and diluted earnings / (loss) per share figures would have been reduced by nil.

The Company may also grant to selected executives and other key employees stock appreciation rights ("SARs") which are settled in cash. The new standard requires that awards, including SARs, that call for settlement in cash or other assets, are to be measured as the amount by which the quoted market value of the shares of the enterprise's stock covered by the grant exceeds the market price of the underlying stock. Changes, either increases or decreases, in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of compensation for the right. Prior to 2002, the Company recognized no compensation when SARs were issued. The cumulative SARs outstanding as at the date of adoption that would have been recognized in prior years had this standard been applied has been recognized as a reduction of 2002 opening retained earnings of $152 (net of income taxes of $88).

3. Bank indebtedness

As at March 31, 2002, the Company had a $20.0 million bank operating loan facility. Draws on this facility are repayable on demand and bear interest at prime plus 1.25%. The Company's ability to draw on this facility is primarily dependent upon its accounts receivable that are less than 90 days outstanding. The Company has provided a first charge on all accounts receivable and inventory and a subordinated charge on all other assets as collateral for the operating loan facility. Included in this facility are letters of guarantee totaling $410 (2002 - $410) which expire in the upcoming fiscal year. The credit agreement contains covenants about the maintenance of certain financial ratios. As at March 31, 2003, the Company was not in compliance with certain financial ratio covenants required under the credit agreement. The Company is renegotiating the terms of the operating loan facility.

4. Long-Term Debt

	March 31, 2003	December 31, 2002
	$	$
Term loan 1, due August 2004 (i)	**2,207**	2,716
Term loan 2, due February 2006 (ii)	**900**	900
Term loan 3, due February 2012 (ii)	**1,100**	1,100
Equipment purchase contracts	**2,465**	2,104
	6,672	6,820
Less current portion	**3,218**	3,326
	3,454	3,494

(i) Term loan 1 matures on March 15, 2005 and bears interest at the lender's floating base rate plus 3%. The average effective rates for the three month period ended March 31, 2003 was 6.38% (2002 – 5.60%) . The minimum principal repayments required are $1,773 per year, payable in nine monthly installments of $197. To recognize the seasonality of the oil and gas service sector, no payments are required in March, April or May.

(ii) Term loans 2 and 3 bear interest at the lender's floating base rate plus 3.25%. The average effective rates for the three-month period ended March 31, 2003 was 6.63%. Total annual principal repayments for term loan 2 are 2005 - $700,000, and 2006 - $200,000 and for term loan 3 are $158,000 (commencing June 2005).

The Company has provided a first charge on specific capital assets and a floating charge on all other assets as collateral for the 3 term loans.

(iii) Equipment purchase contracts bear interest at varying fixed rates which average approximately 8.0% and mature in the years 2003 to 2006. Specific items of contractors' equipment and vehicles have been pledged as collateral for the loans .

5. Debenture

The $10.0 million debenture is due July 2, 2004 and bears interest at 8%, payable semi-annually on June 30 and December 31. Semi-annual principal payments to a maximum of $2.5 million were to commenced June 30, 2002 (the "Sweep Payments"). The determination of the Sweep Payments incorporates cash flow, capital expenditures net of new financing and long-term debt principal repayments for the prior six-month period. The Company was not required to make a Sweep Payment in 2002, and estimates that it will also not be required to do so in 2003.

The debenture is secured by a floating charge on all assets of the Company.

The debenture contains a covenant requiring the Company to be in compliance with the covenants of the bank operating facility (note 3). The Company and the lender have agreed to a temporary elimination of the covenant.

The Company's ongoing ability to meet its financial covenants on the debenture and the term loans is primarily dependent on industry conditions. Accordingly, the Company may become in violation of its covenants at a later date, which might result in repayment being demanded, which would necessitate the debt becoming classified as a current liability.

6. Stock Options and Per Share Amounts

The Company has a fixed stock option ("option") plan under which the Company may grant to directors, officers, management and employees options to purchase up to 4,998,000 common shares. The exercise price of each option equals the closing price of the Company's stock on the last trading day preceding the date of grant. An option's term can vary as specified in the option's agreement.

The Company utilizes the treasury stock method in the determination of diluted earnings (loss) per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that the proceeds arising from the exercise of outstanding "in the money options" are used to repurchase common shares of the Company at their average market price for the period.

A summary of the status of the stock option plan is as follows:

	# of Options	Weighted Average Exercise Price $
Outstanding, December 31, 2002	3,157,500	0.39
Cancelled in the period	(75,000)	0.35
Outstanding, March 31, 2003	3,082,500	0.39

7. Segmented Information

The Company provides services to the oil and gas exploration industry in the Canadian Western Sedimentary Basin and the Arctic. The Company's reportable segments have been defined by their role in the three main segments of the oil and gas exploration process - identifying a potential wellsite, drilling the well, and the production and distribution of oil and gas.

During 2003 and 2002, all operations of the Company were conducted in Canada. The other segment in 2002 included international operations that were wound up 2001.

	Three months ended March 31, 2003				
	Front-End Services	Surface Preparation	Post-Drilling Services	Other	Combined
Revenue	**10,734**	**7,222**	**4,087**	**-**	**22,043**
Total assets	**13,412**	**11,684**	**7,390**	**-**	**32,486**
Capital expenditures [(1)]	**134**	**26**	**668**	**-**	**828**

	Three months ended March 31, 2002				
	Front-End Services	Surface Preparation	Post-Drilling Services	Other	Combined
Revenue	7,694	5,124	2,094	-	14,912
Total assets	20,554	17,920	6,833	111	45,418
Capital expenditures [(1)]	834	55	24	-	913

[(1)] Total includes non-cash expenditures financed under equipment purchase contracts and long-term debt.

CORPORATE INFORMATION

Directors

Bruce R. Libin, Q.C.
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Calgary, Alberta

Thomas Denison
Managing Director
First Reserve Corporation
Denver, Colorado

Will Honeybourne
Managing Director
First Reserve Corporation
Houston, Texas

Timothy Day
Vice-President
First Reserve Corporation
Houston, Texas

Glen Roane
Corporate Director
Canmore, Alberta

Mark Smith
Barrister & Solicitor
Osler Hoskin Harcourt LLP
Calgary, Alberta

Officers

Bruce R. Libin, Q.C.
Executive Chairman & Chief Executive Officer

Warren Plue
Vice-President
Survey & Line Clearing

Jim O. Holt
Vice-President, Drilling

Corporate Headquarters

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